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BEYOND THE FIRST C.A.P.

BY

François Duchêne

This Working Paper takes up themes developed in "Limits on the Common Agricultural Policy" published in 1984 on behalf of the Atlantic Institute by Roman & Alan Held (USA) and Croom Helm (UK).
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It has been suggested that the troubles of the C.A.P. constitute a crisis for the European Community but not for Western European agriculture (Josling & Pearson 1982). Certainly, the crisis has focussed on the Community's financial regime. The running of the C.A.P. until 1984 has been made possible by the Luxembourg Agreement of April 1970 (Strasser 1977). This agreement gave the Community, in principle, its own independent tax-base up to 1 per cent of the proceeds of value added tax (VAT) in the member states(1). The provision has been as vital to the development of the C.A.P. as the basic decision of the mid-1960s which set up the market and price system. In effect, the Luxembourg Agreement for a decade and more made decisions on C.A.P. spending to a large extent a function of needs of farming as defined by the government-farm complex. Without automatically growing revenues, the expansion characteristic of the C.A.P. might well have fallen foul of political differences between the member states well before it actually did.

As it happens, the resources released by the Agreement ran out in 1984. So, at the most immediate level, the crisis has been due to the need to renew them. The net contributors to the Community budget, Germany and Britain, have seized the opportunity to set conditions for further development. They are in a position to drive a hard bargain for relatively small financial concessions. They can even ensure that the beneficiaries of the C.A.P. system have to come back again, cap in hand, after a relatively short while (perhaps 4 to 5 years)(2). They can recurrently put pressure on the other member states in formulating future strategies for agriculture. Bankers' power has taken some time to surface in the C.A.P. By 1984, it seems to have done so and a new phase is opening in which it could well prove paramount.

However, funds have not run out in a void. They have done so because consumption has been unable to absorb the output of Community farmers. The Community has in effect provided government markets, funded by taxpayers, for production which could find no normal outlets: by public bying up and storing of unsold goods or by heavily subsidising their sale at home or abroad (Villain 1984). As the amounts to be stored or subsidised have grown, so have the costs to the Community budget. It is no accident that the storm blew up in the final stages of the recession following the second energy crisis, the longest and deepest since the 1930s. Markets have bought less, and more farm goods have had to be stocked or subsidised. It is impossible to see the C.A.P. crisis in perspective without a view of the evolution of markets. Moreover, Community subsidies to farming have been largely due to the desire to avoid difficulties in the countryside. The crisis, therefore, is one for agriculture as well as for the Community.

Markets: the European Community

The usual view of the troubles of the C.A.P. is that high prices produce surpluses. Yet the fact is that high prices do not invariably lead to surpluses. Many Third World countries have high farm prices, by world market standards, and still suffer from rising deficits. An example occurred in the Community itself. Italy, despite moving to the same common prices as other member states, experienced increasing food deficits (Priebe 1976). Her food imports boomed. Her self-sufficiency ratio, measured in grain equivalents, fell from 91 per cent in 1959 to 78 per cent in 1973(3). This phenomenon was typical of Southern European societies in those years(4). They all modified their eating habits, broadly by a substantial switch from carbohydrates to proteins (e.g. grains to meat). To produce a kilo of meet requires several times that amount of feed (cereals, oilseeds etc.). Meat is inherently expensive. A switch to proteins is thus a sign of rising living standards and involves an acceleration in the rate of growth of demand. Production in Southern Europe, though rising at respectable rates, was unable to keep up. However, by the 1960s the richer northern members of the Community had already gone through this phase (Brown 1963). In the Community as a whole, the growth of demand slowed down between the 1950s and 1960s; and then dropped again more sharply after 1973 (Table 1). The rate of growth of population has been falling, the average age has been rising and as both the average quantity and quality of food people eat are high, increases in income generate only low proportionate increases in consumption. The Community has experienced very low rates of increase in demand for food since 1973 - not more than 1.2 per cent a year in grain equivalents (Eurostat 1980 - 1983). Experts discount a sharp acceleration even if general rates of economic growth improve in the years to come(5). Estimates published by the FAO suggest that demand will be more buoyant in Greece and Iberia in the 1980s (FAO 1979). Even so, production, in contrast to the period 1960 - 1975, is likely to catch up. In short, given the stage of the food consumption cycle which Western Europe has reached and Southern Europe is reaching, the demand for food cannot be expected to grow rapidly in future.

By international standards, the growth of output of Community agriculture has been respectable, but not rapid. Until the late 1970s, it was slower than that of the USSR which, being in an earlier stage in the consumption cycle, has "failed" because it has been unable to keep up with demand (FAO 1980a). Nevertheless, growing on average at a steady 2.5 - 3 per cent a year in grain equivalents over three decades, Community output has increasingly overtaken the growth of indigenous demand in the 1960s and then sharply outstripped it in the 1970s (Table 1).

Given the politics of the annual price reviews, the impression has spread that Community farm prices have been rising. The statistics suggest that this is quite mistaken.

TABLE 1
AVERAGE ANNUAL RATES OF GROWTH OF AGRICULTURAL OUTPUT & CONSUMPTION IN EC-6 & EC - 9, 1953/5 - 1981 (PERCENTAGES PER ANNUM)

	EC - 6	EC - 3	EC - 9
1953/5 - 1959/61 a			
OUTPUT	2.8		
CONSUMPTION	4.1		
1957/61 - 1969 b			
OUTPUT	3.1		
CONSUMPTION	2.6		
1973 - 1981 b			
OUTPUT	2.6	2.7	2.6
CONSUMPTION	1.5	0.03	1.2

Notes to Table 1:
a Values, derived from national accounts (for difference with grain equivalents, see footnote 3).
b Grain equivalent volumes (for sources see below). Not comparable with 1953/5 - 1959/61.
For sources, see Notes 24

Corrected for inflation (as measured by the implicit deflator of C.A.P.), the prices of major products in the Community (e.g. wheat, sugarbeet, milk and beef) have in nearly all member states and at nearly all times fallen between 1963 and 1979, in some cases substantially (Commission 1980). Yet in nearly all cases, output has risen strongly. The instances in the following table are representative:

CHANGES IN PRICES IN REAL TERMS AND IN PRODUCTION IN SOME EC MEMBER STATES FOR MAJOR COMMODITIES BETWEEN 1963 & 1979

(Percentages)

Commodities	Country	Production	Prices (in real terms)
Wheat	West Germany	66	- 43
Sugar	France	88	- 16
Milk	Netherlands	65	- 33
	United Kingdom	26	- 22
Beef	Belgium	7	- 16
	Italy	99	+ 1

Sources: Eurostat, Prices Received by Farmers, June 1980; Eurostat, National Accounts and Agricultural Situation in the Community 1980; OECD, Statistics of Area, Production and Yield of Crop Products in OECD Member Countries; Milk, Milk Products and Egg Balances in OECD Member Countries; & Meat Balances in OECD Member Countries; EEC Commission, Agricultural Situation in the Community (annual).

In other words, costs fell so much that output was able to rise very markedly despite significant falls in real prices. Here is evidence of major progress in productivity on the land, due in particular to major mechanisation, major advances in bio-engineering and better organisation and management(6). This is not just a case of Europe catching up on earlier achievements in the United States. In the USA, too, after four decades of very slow growth in yields at the beginning of the century, the improvement of productivity accelerated in the next four decades (Sanderson 1982). Thus, whereas the stage reached in advanced industrial societies in the consumption cycle has slowed down demand, the progress in productivity has speeded up output. Supply has overhauled demand. Though real prices to producers fell substantially, they should have fallen still more to ensure that Community demand could absorb domestic production.

The reasons this has not happened are, of course, political. All West European governments, without exception, once immediate postwar shortages were met, have pursued policies designed to keep prices to their farmers well above what sales on open markets would have provided. As economic "miracles" and welfare priorities took hold, the main official motive became to help farmers close the gap between their generally low average incomes and higher average ones in the non-farm sectors of society. In some countries, such as Belgium in 1963, "parity of incomes" for farmers was written into the law(7). However, this cannot have been the only goal. It became apparent by the early 1960s that price "support" policies did not produce higher relative farm incomes, and yet they continued in force. Improving food exports was one clear objective. Fear of the reactions of farmers to price cuts was perhaps an even more important motive. Farmers in the early 1950s accounted for a quarter of the working population of the founding states of the Community and were a major electorial force. Yet the commitment of farm lobbies was itself revealing. Support prices, paid out on production, naturally favour big producers who increase output more than smallholders can. Large farmers, especially those in countries like Germany and Britain with substantial incomes off the farms, have done disproportionately well out of price supports (Agrarbericht & Hill 1983). Smallholders have obtained minimum security rather than higher incomes. National and, later, C.A.P. price supports have mainly helped large farmers and encouraged output.

A low and falling rate in the growth of demand is the yardstick which, in manufacturing sectors, denotes a "declining" industry. It is expected of such branches that they will have a slow growth in production and shed labour over the years. The Community's agriculture has shed about half its labour between 1960 and 1980 (Commission 1981a) but the growth of production has been remarkably steady and quite high (Table 1). In short, a declining industry has been encouraged to behave like an expanding one, ultimately because of uncertainty, verging on fear, about how to handle the economic, environmental, social and political problems of adjustment in the countryside. Masked by dynamic appearances of growth, policy has essentially been defensive.

The consequence has been to raise the ratio of production to consumption of food in Community countries, in other words raise self-sufficiency (Table 2). This relative increase in supply was already becoming an acute anxiety for exporting countries, such as the Netherlands (dairy, pigmeat, eggs), France (grains, sugar) and Italy (fruit, vegetables) as early as the mid-1950s. It was one of the main reasons for the establishment of the C.A.P.

which opened up to all member states the major traditional European food-importing markets of Germany in the 1960s and the United Kingdom in the 1970s, on top of the Italian boom in food imports in the 1960s which unexpectedly added a third major market to the two that were previously known to exist. Because the C.A.P. gave producers in member states a virtually total preference in each others' markets over all third parties, trade between Community countries from 1960 to 1980 more than trebled. in real terms (Table 3). Imports from the outside world fell by 5 per cent in real value in the same period. This provided a major outlet for growing European output at the expense of third countries. Denmark in particular lost huge market shares in the Community before joining in 1973(8).

However, as the levels of national self-sufficiency of all the member states (except Italy for a decade at the peak of the boom years) continued to rise, so did that of the Community as a whole. The original Community of Six had a self-sufficiency ratio of 91 per cent in 1959. This had risen to 99 per cent by 1973, when the UK joined. With the UK, the Community of Nine had a self-sufficiency ratio of 94 per cent in 1973. This rose to 107 per cent by 1981, when the entry of Greece raised the total for the Community of Ten to 108 per cent (Table 2). In 1979, the Community crossed a major watershed. It became a net exporter of the kind of temperate foods which it produces(9).

TABLE 2
SHARE OF NET AGRICULTURAL OUTPUT IN INTERNAL AGRICULTURAL CONSUMPTION 1959 TO 1981 (PERCENTAGES) BASED ON GRAIN EQUIVALENTS

Country/Group	1959	1973	1981
Belgium-Luxembourg	87	96	94
France	98	124	135
Germany	79	82	91
Italy	91	78	91
Netherlands	114	147	161
-- EC - 6	91	99	110
Denmark	-	242	246
Ireland	-	184	202
United Kingdom	-	61	77
-- EC-9	-	94	107
Greece	-	-	126
-- EC-10	-	-	108

Sources: see Table 1. See footnote 9 for changes in EC self-sufficiency ratios when imported animal feed is included in the balance sheet. It is excluded here.

TABLE 3
THE AGRICULTURAL TRADE(1) OF THE EUROPEAN COMMUNITY OF NINE
1960 - 1970 - 1980
(in billion ECUs of 1980)(2)

	1960	1970	1980	1980 (1960 = 1)
Intra-EC Trade(3)	10.5	20.4	34.3	3.27
Extra-EC Imports	33.5	32.3	31.7	0.95
Exports	7.9	10.8	18.5	2.34

Sources: OEEC/OECD, Statistical Bulletins of Foreign Trade, Series C, Trade by Commodities, 1960, 1970 & 1980.

1 - S.I.T.C. Categories 0 (Food) + 1 (Beverages & Tobacco) + 22 (Oilseeds) + 29 (Agricultural materials including Plants and Flowers) + 4 (Vegetable Oils & Fats).

2 - ECUs = $1 in 1960 & 1970; = $1.39 in 1980. For ECU deflator see European Economy, November 1983, Statistical Annex.

3 - $\frac{(\text{Imports + Exports})}{2}$

Two major consequences have followed. The first has been a tendency to the choking up of the channels of trade between member states of the Community as the levels of self-sufficiency of each country rose. Exports of cereals and sugar between Community states have tended to stagnate and even fall since 1973(10). The second consequence is a massive shift towards exports on world markets.

Markets: the World

World food trade was exceptionally buoyant in the 1970s. The United States Department of Agriculture has calculated that its volume rose nearly 5 per cent per annum on average from 1950-1972 and over 6 per cent per annum between 1972 and 1980 (O'Brien 1981). Almost the whole of the increase in world food demand was the result of the kind of process already mentioned as regards Southern Europe - a switch from the consumption of carbohydrates to proteins in some forty rapidly growing countries. These included Japan, the so-called NICs (newly industrialising countries like Korea), the OPEC oil-exporters and the Socialist states, including the USSR and China. The really poor countries were not a source of demand. They lacked foreign exchange and accounted for a minute proportion of the increase in world food imports. The buoyancy of food markets was therefore a consequence of rising incomes and changing consumption patterns in a large and dynamic minority of countries, not of the general growth of population in the Third World. In effect, a whole new range of countries, mainly in East Asia, the Middle East, the Mediterranean and parts of Latin America as well as the Socialist world, were beginning to enter the stage of the food consumption cycle that North-West and Central Europe had experienced earlier in the century.

The European Community was a major beneficiary of this worldwide if not universal increase in the commercial demand for food. This comes out from the Community's share of the increase in world exports for a number of particularly important commodities in each of the two decades of the 1960s and 1970s.

EC EXPORTERS' SHARE OF THE INCREASE IN WORLD EXPORTS OF SOME MAJOR FOOD COMMODITIES IN THE 1960S AND 1970S (PERCENTAGES)

Commodity	1960-1970	1970-1980
Grains	15	9
Meat	10	33
Sugar	-8	58
Milk Powder	58	88
Butter	72	142

Sources: FAO Trade Yearbooks, OEEC and OECD Statistical Bulletins of Foreign Trade, Series C Trade by Commodities, various years.

Community exporters played a much bigger role in the growth of world exports in the 1970s than in the 1960s; their market shares were much bigger for sugar and livestock products than for grains; in a number of items they were preponderant, even overwhelming; and in the case of butter the Community not only accounted for the whole of the world increase in exports in the 1970s but displaced traditional exporters.

Between 1960 and 1980, Community food exports in the world increased over 2-3 times in real terms (Table 3). By 1980, the European Community was the world's number one exporter of wheat flour, barley, potatoes, wine, beer and spirits, poultry, meat (taken as a whole), dried milk, butter and cheese (OECD annual). It was the world's second exporter of sugar, beef, pork and eggs. The European Community was not as basic to world food trade as the United States, which provided the grains and oilseeds to fuel rapidly growing animal production round the world. It tended to concentrate more on meat and milk. But during the 1970s, and for the first time, it became a major force on world food markets. This is a very recent phenomenon.

From 1978 onwards, Community exports to the world provided bigger outlets for new volumes of production from Community markets themselves(11). But this has had two limitations. The first is that in contrast to the preferential Community market, it is not possible to depend on world markets. When they are expanding, they provide opportunities the slow-growing Community market can no longer provide as in the past. But they are not stable, as Community markets have been. When they stagnate or contract, there is little the Community can do. In 1982, world food markets fell and then collapsed. Community sales of milk powder to the rest of the world fell over 40 per cent between 1981 and 1983 (Commission 1983). Sugar prices fell to such low levels on international markets that in two successive years Community producers had to reduce plantings of beet by 10 per cent a year(12). These cutbacks were typical and nothing like as drastic, across the board, as those suffered by other exporters, notably in North America.

The second limitation is that since Community domestic prices are often two to four times the world price, depending on the product, the stage in the trade cycle, and the strength of the dollar in which most international sales are denominated, exports are usually possible only with heavy subsidies. The Community budget finds this relatively easy to bear in buoyant periods such as the second half of 1980 to the end of 1981. But when markets are bad, as in 1983-84, the costs of subsidising sales or of the still more expensive storage of surpluses shoot up. This is how the recession in world food markets of 1983 turned into a budgetary crisis for the Community. This has been due to a combination of a medium-term increase since 1978 in payments to the Southern producers of the Community and of the short-term collapse of world markets (Table 4). A revival of world markets could theoretically lift the Community off the shoals again. But the heavier the underlying burden of surpluses and the larger the payments to backward regions become, the heavier the basic weight of the cargo to be raised. Enlargement of the Community to Iberia will further increase the flow of resources from rich to poor in the Community(13).

TABLE 4
THE EVOLUTION OF COMMUNITY FARM SPENDING
IN REPRESENTATIVE YEARS IN ECUs OF 1975

European Community of	Year	EC Farm Budget mn ECUs of 1975	EC Farm Budget %GDP of Member States	Sales Subsidies (1)	Stocks & Equivalent (1)	Production Subsidies (1)
				(millions of constant 1975 ECUs)		
Six	1968	4069	0.60			
	1970	8392	1.10			
	1972	3465	0.42	1857	347	954
Nine	1973	4869	0.43	2877	377	1150
	1974	4192	0.37	1515	642	848
	1978	7314	0.61	3701	1557	796
	1980	7335	0.58	4460	1211	1424
Ten	1981	6573	0.52	3684	1188	1649
	1983	8260	(0.65)	4122	1726	2144

Sources: Commission of European Communities
a) Report on the Agricultural Situation in the Community (annual)
b) European Economy, November 1983, Tables 17 & 48

(1) excluding MCAs

This has implications beyond the short-term crisis of 1983-84. Various studies of world food prospects to the end of the decade and even the century have been made (e.g. the United States Department of Agriculture to 1990 as regards outlets for US basic export crops; FAO for most major commodities including Developing Countries in Toward the Year 2000). Table 5 gives a summary of some results. These studies suggest that world markets are to the end of the century most unlikely to absorb extra-European Community production rising at the rates of the last decade. Even at the high rates of growth of world markets of the 1970s, it is evident that traditional Community expansion would leave little scope for other exporters to increase sales, let alone maintain their market shares. This might be tolerated were the Community a low-cost exporter. On the basis of heavy subsidies, however, such expansion is a recipe for conflict with other exporters, many of whom are close political associates, above all the United States(14).

TABLE 5
WORLD SUPPLY BALANCES FOR SOME MAJOR TRADED COMMODITIES IN 1979 AND 2000
(millions of tons)
(+ EXPORTS - IMPORTS)

	1979	2000(a)
GRAINS		
EC	- 0.4	+ 60
LDC	-52.5	-186 (-165)
Others	51.4	
MILK		
EC	+12	+ 61
LDC	-15	- 67 (- 25)
Others	+2	
MEAT		
EC	- 0.1	+ 5.2(x)
LDC	- 0.3	-15 (- 3)
Others	+ 1.1	

Notes to Table 5

(x) Beef and veal only
(a) Extrapolates trade trends 1960 - 1975 up to 2000 (FAO 1979). Figures in brackets correct for lower LDC growth rates and for coherence in balances of payments between exporters (mainly Western) and importers (FAO 1981)

Sources: FAO Trade Yearbook 1980, Agriculture: Toward 2000 (1979); Agriculture Toward 2000 (1981); Eurostat 1980 & 1983

A number of other consequences follow from the Community's increasing dependence on world outlets. The first is that an exporter "cannot master prices; he must submit to them" (Bergmann 1979). This is a far cry from the tight control over prices and outlets to which preferential markets have accustomed European farmers in 15 years of the C.A.P. Export cartels can manipulate markets to some extent, but even OPEC has discovered their limits. So has the EC-New Zealand export dairy cartel in 1983.

The second consequence is that when world markets fail, particularly for commodities the Community dominates like dairy products or even sugar, the costs directly affect its domestic politics through soaring budgets. Steadily rising supplies contrasting with variable world markets and prices mean a prospect of sharp recurrent crises interspersed with remissions when conditions are good. This is likely to put maximum strain on the internal cohesion of the Community.

In short, the exploitation of world markets has to be geared to what they are able to absorb after allowing for short-term ups and downs. A degree of variation is possible but only within limits. The relationship to markets, which no exporter can escape, implies flexible responses in production. In view of the tendency to rigid growth of production inside the Community over a long period, in effect this means the control of output, by prices or by other means. Limits will be no less real because they do not preclude growth at rates and times world markets can accomodate.

Since the failure to make Community output responsive to demand in the past three decades has not been an accident but an expression of the desire to mask the need for adjustments in the countryside, restraints on output must bring out the basic problems expansion has masked for twenty years. The farm policies of the Community and/or the member states will have to change and enter a new phase whatever the short-term outcome of the crisis of the C.A.P. Nor can the problems be finessed simply by giving up the C.A.P. to return, say, to national regimes. The C.A.P. was itself established to solve the difficulties of some of the member states. Solutions cannot be found at the level of politics and institutions alone; whatever else they do, they will have to apply to agriculture and the farms as such.

Structures of Power in the C.A.P.

It is not possible to discuss policy options facing the Community in agriculture without analysing the structures of power within it. Any policy in any regime, centralized or not, is bound to be affected by lobbies and electoral or other interests. In a system which is confederal or federal a further layer of interests has to be taken into account: the balance between the member states and common institutions. This is particularly the case in a regime whose collective powers are as limited as those of the European Community. In federations, the power of the centre as against the states is sometimes measured in terms of the share of revenue accruing to the federation. In Yugoslavia in 1971, when devolution to the Republics from Belgrade was under intense discussion, a major issue was whether the federal authorities would control 20 per cent or 8 per cent of total public funds. In the C.A.P., the Community controls about one-third, at most, of funds that go to agriculture in the member states as a whole. The national governments control the rest(15). This "rest" consists mainly of social security payments, investment and consumption subsidies and tax exemptions. In practice, Commission figures underestimate tax exemptions, if not subsidies as well. In all but three of the member states, farmers pay taxes only on notional income, so that it is not possible to be precise about what the exemptions amount to (House of Lords 1982).

In practice, the Community deals with the finances of price supports for agricultural policy and the member states overwhelmingly deal with "structural" policies which govern investment and the pattern of holdings. Around 1970, the Commission proposed a Community "structural" policy and hoped to devote half of Community farm expenditure to it. The governments refused and the rump of that policy only accounts for some 5 per cent of Community farm spending. Moreover, governments are in practice able and willing to initiate actions not envisaged in the original C.A.P., and which in effect constitute tolerated violations of it. MCAs have become the contentious symbol of the different price levels that obtain in the member states. Moreover, Germany and France have given national income aids to farmers (1970-72 in Germany, 1980 and 1981 in France). Such aids can be viewed as an alternative to (Community) price supports. Indeed, their growth in recent years is probably the consequence of the tighter price policy adopted by the Commission (House of Lords 1982). At different times, member states have closed their markets (e.g. Italy for eggs, Britain poultry, France wine and pigmeat). All these are manifestations of national, not Community, policies towards agriculture.

The national component of the C.A.P. is deeply rooted in the elaborate institutional networks for the integration of farmers. This can be shown by the example of France, which is more explicit than some, but illustrates a much wider reality. The Crédit Agricole, the world's largest deposit bank, enjoys tax privileges as a cooperative, and is a channel for subsidised investment credit to priority categories of farmers. (Most member states subsidise investment loans to farmers. Britain provides capital grants instead.) In addition, there is a range of organisations interprofessionnelles linking farmers and food industries in each food chain (e.g. from grains to bakeries, milk to dairies, etc). One French author has written that they impose "monopoly constraints with public backing" and act in ways "not always compatible with the common market" (Guillot 1980). They are constituted in such ways as to make possible subsidies within them. In addition, they are national agencies with the power to pre-empt land coming on the market and sell it relatively cheap to young or small family farmers who are thought to have a chance of effectively modernising their farms. About a third of sales each year are effected in this way (CNASEA 1980). As in most other member states, there is a national agency which promotes exports by agriculture and the food industry (e.g. SOPEXA in France, CMA in Germany, Food from Britain in the UK).

This might seem enough, but in fact other national policies can often be relevant to investment in agriculture. For instance, in 1980, there was a fuss between France and Britain over the establishment in Brittany of a turkey plant with capacity to supply the whole British market. The British met the problem by the simple expedient of forbidding poultry imports at the key Christmas period on "health" grounds. The plant posed the kind of problems familiar in other industries from the concentrated sectoral competition the Japanese or Koreans provide. Three-quarters of the investment costs of the plant were subsidised. All the subsidies were legal under Community and national legislation relating to regional, employment, training or industrial policies in developing regions and could have been replicated in any similar area in the Community (House of Lords 1982). Most of these policies had at first sight no special relation to agriculture.

To a greater or lesser degree, a corporatist decision-making environment can be found in every one of the member states. In all of them, national corporatism does not become European, or deeply susceptible to collective control, simply by putting national agricultures in direct market contact with each other, as the C.A.P. has mostly done so far. It is like instituting free trade between nationalised industries in manufactures (a problem which is indeed well-known in the industrial common market too).

The common agricultural policy is then a misnomer in many ways. What it really covers is a dual system. The Community's agricultural policy deals mainly with prices. The national policies deal mainly with investment in the broadest sense. There is a great deal of overlap between the two. On the one hand, there are different price levels in the different countries, despite the C.A.P. On the other, the Rome Treaty gives the Commission powers to limit national state subsidies which distort inter-state trade between Community members. Those are the kinds of powers which, in the United States, have provided the base for the growth of federal regulatory power. In the much looser EC, however, the broad division of responsibilities has so far developed in such a way as to give the C.A.P. a strongly national as well as Community character.

Member states have so far resisted effective supervision by the Commission of national investment in agriculture. A few years ago, a responsible Eurocrat estimated that only half of the national aids to agriculture supposed to be registered with the Commission actually were so (House of Lords 1982). The Commission has never succeeded in obtaining funds from the Council to set up an adequate monitoring service. On a number of occasions, the Commission has been refused permission to inspect suspected cases of lax or fraudulent interpretation of regulations by the national authorities. Member states in setting up the C.A.P. seem to have determined that investment policies, which can provide just as much incentive to output as prices, should be as national as possible and that the Community should have the minimum control over them.

In two decades of expansion, it has been easy to wink at violations of what any common policy should mean. There was room for everybody to pursue individual purposes; violations even offered precedents for others to file away for later use. Once limits and controls have to be imposed, such indifference becomes too costly to be sustained. Either collective bounds have to be set and observed, with only narrow margins for exceptional national performance, or the system itself breaks down and reverts to openly national priorities. As a result, the agricultural problem of exerting controls where none have been seriously applied before, also involves a European political problem of choice between more effective common policies or their erosion and progressive dismantlement. Significantly, in 1983 the Commission has proposed an interdict on investment that may increase milk production (Commission 1983). Policy options are radicalised, not because anyone wants them to be, but because the context has narrowed the room for the traditional and covertly ungoverned fuite en avant.

Policy Options

Crises break out in a system when changing conditions produce contradictions with which existing bargains cannot cope or create new targets of attention to the point of making them irrelevant. Either way, old rules have to be revised to meet new conditions. But once the balance of interests enshrined in the old rules has been called in question, the standard reverts from the rules to the interests and these set no preordained limits to the extent of questioning. All options are reopened, even if official assessments preclude some of them ever rising to the surface. One may even jettison the system altogether. Assuming this is not the case and that the compact is renewed, it must still, by definition, fit current concerns, different from the old and perhaps in some respects actually opposed to them. Crises, in short, take policy-makers back to basic choices, whether they like it or not. This is a danger, and also an opportunity. Carried to extremes, crises can bring the house down, but in moderation they may produce a much-needed spring-cleaning.

In the case of the C.A.P., the first option is, plainly, not to renew the compact, i.e. to revert to national policies. Such a return to base could occur because individual governments hope to maintain domestic expansion along familiar lines; or because they think they can succeed better in their exports untramelled by collective constraints; or again because, whatever their own priorities, they lose control over their constituents - the farmers - who, in many countries, still carry great political weight.

There seem to be three different cases which need to be looked at. The first is that of net exporters in the Community. The problem for them is that if expansion goes on apace, as in the past, national self-sufficiency in all the member states will continue to grow and they will increasingly risk losing the outlets within the Community opened by the C.A.P., and from which they have gained most. This would be particularly serious for the small specialized exporters whose greatest successes, over a century, have been in the exploitation of the major European import markets, originally in Britain, but now equally or even more in Germany and Italy. Moreover, as far as world markets are concerned, exporters would stand to lose by having to fight for market shares individually. As things are, The European Community makes a very effective political negotiating cooperative, or cartel, and this would be lost by a return to outright national policies. Worse, such states would not only have to face the United States and other traditional exporters single-handed; they would also run the risk of having sooner or later to compete, on the basis of export subsidies, with all the other nine member states of the Community who formerly gave each other mutual strength by combining.

The second case is that of the poorer states, mainly Ireland and those in the Mediterranean. These could well be tempted to national unilaterism because effective controls would tend to cut off their hopes of being able to catch up on their richer partners in the Community. Ireland's dairy industry is specially vulnerable because it represents something like 10 per cent of GDP, a figure without parallel in any other of the EC countries. Controls limit hopes of expansion which for them are even more important than for the richer countries. On the other hand, the poorer states all stand to gain from large Community expenditures which, particularly through the structural agriculture, regional or social Funds, may be expected to be channelled towards them and help them solve some of their long-term problems. In practice, this sense of dependence on the extra margin offered by membership of a Community with a higher average income than their own, seems to outweight the reservations about cutting off expansion. These countries would also find it difficult to secure outlets if they attempted to grow unilaterally without guarantees of markets in the rest of the Community. They are too vulnerable to take such risks.

The third category, the rich importers, do not suffer from such handicaps. At first sight, these are Britain and Germany. However, Germany today is in most respects no longer an importer. Admittedly, it is not self-sufficient in pigmeat and poultry, imports of which are bound up in its special politico-economic relationships with the Netherlands and Denmark; but for cereals, dairy products and red meat, it is now a net exporter. It is also concerned with the role of the Community as a security factor in Central Europe and the Mediterranean. Germany is virtually the only

Community country to have developed a thorough and systematic security policy towards the Mediterranean since the early 1970s. The special relationship with France which is at the base of all European integration also inhibits it from breaking up a common agricultural policy presumed to be of importance to France. For all these reasons, it is most unlikely that Germany would turn overtly to national unilateralism unless others moved first.

The U.K., at least in theory, has greater freedom of manoeuvre in all these respects, and is further away from self-sufficiency in food (Table 2). Even so there would be material costs. Britain is becoming an exporter of cereals. If the Community ceases to operate, she would have to take on the collective guarantees given to New Zealand and the Commonwealth sugar producers as her residual responsibility, even though her own native supplies have greatly increased since 1973(16). Economically then, there is some but not too much leeway. Politically, it is difficult for Britain to take the lead in unilateral action. She entered the Community because of the fear of political isolation if she stood apart from a growing Franco-German relationship. The EMS in 1978-79 and the overriding of the British veto in the annual agricultural price review in May 1982, have showed there are limits to the initiatives that Britain can take in the Community without risking isolation. Politically, too, her bargaining power can only be exercised within fairly narrow bounds.

For all these reasons, deliberately unilateral agricultural policies by the member states do not seem probable as a clear, once-for-all choice. They might, however, come about as a result of a long and confused process in which governments lost control, either repeatedly in detail, or at some point in a general way. France, for one, has a tradition of agricultural violence, mainly in the Midi and Brittany, going back to the wine-growers' riots of 1907, and governments have in the past been highly sensitive to it. Farmers are not as numerous as they were but still constitute the single largest profession in most member states. If open or covert unilateral national policies are excluded in favour of collective (i.e. common) approaches, several kinds of measures can be envisaged.

i. Market Prices. The first possibility, in theory, would be to tie farmers' returns simply to what they can earn on open markets, at home and abroad. This is so far from traditional and well-nigh universal practice to be virtually utopian. Even if it were conceivable in Community terms, it would almost certainly presume a similar approach by other major agricultural producers and traders, which is also remote. The United States, for instance, limits dairy and beef imports by quota.

However, it is worth noting that even if such a policy were applied, it could not in practice amount to unmitigated free trade. The reason for this is the destructive instability imparted to markets from year to year by the contrast between, on the one hand, variable harvests due to the weather and, on the other, invariable ("inelastic") demand for products as basic as food. Caught between such incompatibles, prices rise exaggeratedly when there is temporary under-supply and fall exaggeratedly when there is temporary over-supply (the "cobweb" phenomenon). Quite small shifts in supply one way or the other can produce enormous shifts in prices. These entail unnecessary and excessive costs for producers in one direction and consumers in the other; and give farmers false price signals for next year's crop when unpredictable weather conditions may, and probably will, change the market balance again. To prevent such disorders there would have to be buffer stocks, preferably international because these could be proportionately smaller and therefore cheaper to finance. They could counteract the short-term swings from one side of the underlying balance to the other. There would also need to be national (or Community) income guarantees to farmers, probably through minimumn price supports, to guard against the occasional extreme of a catastrophic temporary fall in market prices. These would be a safety-net in case the short-term swings are, in extreme cases, too big for buffer stocks to contain. These are always possible, because stocks need to be financed and there is a limit to the investment governments would in practice be prepared to make.

The point about such measures is that some equivalent international, or government, intervention is necessary even in the most unvarnished free trade policy. This has indeed been one of the historical foundations of agricultural protection. It illuminates more limited forms of open market policies, or moves in that direction, which might be more practical than the pure medicine itself.

Two Australian researchers have made econometric studies of the impact on grain and meat prices of a hypothetical instant freeing of Community agriculture in 1980 (Anderson & Tyers 1983). For grains and red meat (mainly beef), their results assume there would be a 40 per cent fall in output and in prices, implying a 60 per cent loss in gross returns. Effects on income would not be as extreme, because lower output would entail lower production costs. Indeed, costs would fall very substantially for white meat (pigs and poultry) which consume large amounts of grain whose price would, of course, fall. Thus, while grain prices would drop about 30 per cent, production would rise by much the same proportion and producers' incomes actually increase. The authors did not investigate milk. Presumably, returns would fall less than for grains and meat. Community exports are three times as large as the total output of the cheapest producer, New Zealand, and United States prices, when the dollar is strong, are higher, if anything, than Community ones(17). The floor on world prices would presumably be higher than for grains and beef.

An alternative French suggestion (Lelong 1983) is that cereals prices be cut by 40 per cent. This would achieve substantial savings in the production costs of livestock (in French conditions, 20 per cent on white meat, 12-15 per cent on milk and 2-3 per cent on beef and veal). It would eliminate potentially the most contentious item in trade negotiations with the United States. It could in the longterm win back part of the Community market for animal feed, which has been heavily penetrated by exporters of cereal substitutes (mainly in south-east Asia) and of oilseeds (USA and Brazil), gaining ground against high-price Community cereals. Most cereals are grown by large-scale specialist producers who have some of the highest farm incomes in the Community.

Such options are not practical short-term politics. They would cut returns too much. On the other hand, they illustrate a basic point. This is that reductions in cereal prices can greatly benefit livestock producers; and that even if the most drastic shift to market prices were to take place, some lines of production, especially of white meat, would actually gain. This would be the equivalent for the Community as a whole, of the strategic decision taken by the Dutch and Danes to favour livestock production against grains when cheap cereals first came in from the new continents a century ago. Significantly, the Dutch and Danes gained a dominant position in food trade in Europe during that period and those of their smallholders who remained in business achieved the highest average farm incomes in the region.

ii. Lower Support Prices. The foregoing suggests that there might be gains in more modest approaches along the same lines. The aim here is not to clear markets or move to free trade, but to control excess supplies and the growth of budgets. The Commission did indeed propose in October 1981 that there should be a reduction in the gap between Community cereal prices and those of "major competitors", meaning the United States, and stated that this gap was, at the time, around 20 per cent (Commission 1981 a). Because of the sharp ups and downs of the dollar, it is impossible to define a stable relationship between Community and U.S. farm support prices(17).

Anderson and Tyers have again suggested a relevant scenario, this time that the Community should, for ten years (from 1978-80 to 1988-90), increase prices by 2 per cent less than the rate of inflation, i.e. in effect cut real farm prices by 2 per cent a year. A longterm strategy like this would, procedurally, resemble the method, with predetermined goals and transition periods, adopted for the establishment of the industrial common market; and which Mansholt long ago envisaged for Community prices (Mansholt Plan 1969).

The results of the study, which imply a cut of 22 per cent in real prices in ten years, would be as follows for production and consumption in 1988-90 compared with actual production and consumption in 1978-80 and with no change in real prices over the same period (in the table P = Production & C = Consumption, figures are in million tons):

COMMODITY	1978-80		1988-90 no change		1988-90 2% cut p.a.	
	P	C	P	C	P	C
Wheat	48.7	44.5	56.9	44.6	53.9	44.6
Coarse Grains	67.9	74.7	78.1	80.9	72.3	84.5
Beef & Mutton	7.3	7.4	8.4	8.0	8.2	8.5
Pig & Poultry	13.0	12.8	14.4	14.5	14.9	15.5

Source: K. Anderson & R. Tyers, International Effects of the European Community's Grain and Meat Policies, Research School of Pacific Studies, Australian National University, October 1983 (mimeo) Table 5.

Cuts in real prices would not stop production rising. In fact, for pigmeat and poultry, it would rise faster than if real prices were maintained. Consumption would rise slightly faster than with no price change, except for wheat. Though changes in both directions would be moderate, net imports would be markedly higher than if prices were maintained in real terms. Gross returns would fall about 1.5 per cent a year, except for pigs/poultry about 0.5 per cent a year. If one assumes a) lower-cost methods of production, b) a fall of 2-2.5 per cent a year in manpower on the land(18) and c) continued though slower progress in breeding of plants and livestock; average net incomes should not fall much on average in any commodity and for the more effective farmers might slightly rise. The targets set need not be socially untenable.

On the whole, such a scenario, however much it disappoints the expectations of traditional expansionists, is relatively optimistic. Perhaps, it is too optimistic. If one takes the response of output to price falls in the Community from 1963-79, the Anderson-Tyers results are fairly comparable for beef but imply only about a third of the traditional response for wheat. It is difficult, for lack of information, to pronounce on this striking difference. The main obstacle is that the past effects of national credits to farm investment and inputs are virtually unknown. This could well be a sign of the importance of national policies in future as well as in the past. Further, one reason for perverse responses to price cuts in the past may have been not economic at all, but psychological - the well-founded belief that incomes could be restored, when that was necessary, by sufficient pressure on policy-makers.

This points to one of two conditions which price cuts of the Anderson-Tyers variety would have to meet. The first is that decisions would have to offer (indeed impose) credible longterm goals. Farmers would have to assume the price cuts would come steadily into effect and that adjustment was unavoidable. Without such a psychological change the pressures for upward revisions of prices every two or three years would probably be irresistible.

The second problem would be that the more vulnerable farmers would have to be compensated for their losses of net income (not, of course, of gross returns). There seems no welfare reason why more efficient farmers, given time to adjust, should receive such compensation. The only case would be where lower prices might lead for instance to lower land values and undermine capital wealth to the point where individual farmers had difficulty raising operating or investment loans and servicing their debts. Such problems should be susceptible to selective treatment.

The more general problem would, of course, concern those smallholders who have no off-farm earnings, are unable to make up losses in income and would lose the minimum level of security the C.A.P. has in the past provided(19). Compensation should be to individual farmers and divorced from production or the holding. It would lapse when they die and not be open to newcomers. The costs of providing compensation to such categories should not be impossibly high. This is largely because smallholders account for such a small proportion of total output. Thus, for cereals, over half of the growers cultivate only 8 per cent of the area sown. For milk, 55 per cent of holdings account for only 15 per cent of dairy cows (Commission 1982). Back-of-the-envelope calculations suggest that, in these circumstances, the net extra costs of fully compensating a gradually declining number of smallholders for a loss of 20 per cent in prices need not exceed 1 billion ECUs out of 16 billion ECUs for the farm fund and 24 billion ECUs for the Community as a whole on 1983 figures. This is not a huge sum.

The difficulties with compensation of this kind would be mainly political. At one level, there could be endless arguments about the drawing of lines between beneficiaries and others. There could also be considerable administrative problems because the register of farms for such compensation is still largely lacking and in some countries - perhaps those which would most need it - it might be hard to establish in a credible way (Harris, Swinbank et al. 1983). The deepest problems, though, could well be financial. For cereals, the big gainers would probably be Italy, Greece and Germany (among present Community states) and the big losers the U.K. and France; in milk, Italy, Greece, Germany and to some extent Ireland should gain, and the Netherlands and the U.K. lose. It is not altogether surprising that the U.K., the Netherlands and Denmark, whose farmers have the highest average incomes, have adamantly opposed schemes of compensation for smallholders.

Some observers have suggested that each nation should be responsible for giving income supports to ~~its~~ own farmers (House of Lords 1979). The trouble is that unless there are strictly enforced collective rules, political pressures inside countries could quickly lead to uncontrolled subsidies. The danger (certainly with rich countries like France and Germany) is of progressive reversion to unilateral expansion. Further, the countries which most need compensation, because they are the poorest and have the most smallholders, are precisely those that can least afford to raise the funds themselves. In short, there would have to be some system, generally accepted as equitable, by which the richer Community member states make transfers to the poorer ones. An element of Community transfers alone guarantees both a minimum of equity and of controls over divergent national policies and behaviour.

Alternatively, the contributions of member states to budgets could be better balanced by spending more on programmes for declining industrial areas as well as poor rural ones (Pisani 1983). But while this would help to close the British budget deficit, it would aggravate the German one. It would also raise Community spending, which sits uneasily with the cost-cutting mood of governments bent, since the late 1970s, on curbing public spending.

In general, reductions of prices, pursued at moderate rates over fairly long periods, need not pose economically and socially insuperable problems. But they raise four types of political difficulty which together assume major proportions. First, policy-makers must be persuaded by the calculations of the economists. Second, reductions inevitably raise the spectre among farmers of serious losses of income, and arouse resistance which requires strong government to overcome. Hard enough in a centralised democracy, such mastery is even harder in a multinational Community covering a great diversity of structures and interests. Third, reduced farm incomes through price cuts are liable to change the market shares and budget balances of the member states, because high-cost producers (e.g. in Germany) are likely to be harder hit than more competitive ones. Compensation to smallholders also implies new balances of payment across frontiers between member states. Fourth, the very idea of compensation to smallholders for lower prices deprives the larger farmers of the political cover for high prices from which they have benefitted for so long. Naturally, they do not like it. How all these factors in combination work out in practice is unpredictable and governments do not like uncertainty, especially when taking measures that go against the grain of the agro-administrative complex. For all these reasons, a policy of moderate but persistent and predictable price cuts until control over production has been asserted, though the most promising of policies, also arouses heavy opposition.

iii. The remaining option is to impose Quotas. Quotas consist in limiting the volume of farm produce the authorities guarantee they will buy at a given price when the market fails to do so. It can be argued that certainty of being able to sell without limit at a known, remunerative price has been at least as important in generating unwanted production as the level of prices themselves. Farmers have been known to produce cereals and milk deliberately to sell not to the market but to the storage agencies. To limit certainty, then, is - at least in principle - an important innovation.

In practice, limits on price guarantees can come in one of two very different forms. The tightest way is to impose penal taxes on any farm production beyond the desired volume. If the taxes are sufficiently swingeing to make production beyond the target unprofitable even for the most efficient farmers, this stops all output beyond the set amount. This is the approach adopted by the Community with its 75 per cent "super-levy" introduced for milk in 1984-85. Canada also runs such a system for grains.

The second approach is much more permissive. It simply consists in according less support, potentially declining to no support at all, for production beyond guaranteed volumes. This is a system which has long applied in the Community for sugar. There is an "A" quota, deemed to correspond to domestic Community demand (though in practice in excess of it) which benefits from the full support (2 per cent below the target price). There is a "B" quota, originally designed to correspond to "normal" exports, which attracts reduced support (currently 39 per cent below the target price). Finally, there is "C" sugar, which obtains no public support at all and is sold by the producers at whatever prices they can fetch on current world markets (Commission 1981c). It is a system which the British applied before entry into the Community, under the name of Standard Quantities, to the subsidies they provided to farmers for cereals and milk. Under the guise of "guarantee thresholds" it was applied in the Community to milk and is now applied in varying degrees to cereals, rapeseed, sunflower seed, cotton, processed tomatoes and dried grapes (sultanas), as well as sugar (Commission 1984).

Quotas appeal to governments because they stop the uncontrolled growth of spending: it is possible to predict roughly how much will be sold to the storage agencies within the limits set. Sugar costs the Community budget relatively little(20). Quotas also avoid, at least at first sight, the involved politics of providing compensation to low-income producers. Up to the approved ceiling - in practice based on domestic demand and "normal" exports - producers continue to get traditional prices. In theory, so long as taxes beyond the limit are sufficiently penal, it is also possible to raise prices within the quota so as to meet income demands. This is very attractive. In principle, also, quotas lend themselves to international cartel arrangements. This is not surprising. They constitute a de facto cartel at home. They are therefore institutionally geared to cartel agreements abroad, such as with New Zealand for dairy products. Quotas, in short, cause the least disturbance to the old arrangements and to government control of policy.

However, this minimalism in reform is also their main drawback. The more quotas are successful in imposing limits, as penal taxes can technically be, the more they freeze production patterns. Though the sale of quotas between producers leaving a sector and those staying on can provide some flexibility, this will not add up to much if those who leave are smallholders with little production to hand on. There is no competitive adjustment of the kind that lower prices provide by creating conditions that favour the least-cost against highest-cost producers. There is no incentive to move to a self-adjusting balance at a lower level of supply. The strains in the system are reined in but not removed. Where price reductions, after the first difficult years, should reduce the strains, quotas perpetuate them. One question, then, is how long they can be maintained against the grain of the system. Penal taxes demand strong government, difficult enough to impose for a long time in a centralised national regime. In a diffuse, composite Community, they imply a cartel of national production shares, as in sugar or steel. In these conditions, any upheaval or failure of authority in one of the member states is liable to break the consensus of the whole. It is the classic cartel problem.

Some of the difficulties become quite visible when the quota system is more permissive. Sugar is a perfect example. The prices of the "A" and "B" quotas (now treated in practice as a combined support price) are such as to let most Community producers meet their fixed costs. As a result, production beyond the quota limits can be achieved at marginal costs, which are far lower. Thus, between 1975-76 and 1982-83, Community sugar farmers increased output until they were producing 50 per cent more than Community domestic needs and dumping the excess, outside the quota, on world markets(21). This has greatly depressed world prices and undermined the earnings of other exporters who, apart from Australia and South Africa, are all developing countries. In fact, prices have fallen so low that in 1982 and 1983 there were no profits to be made even in dumping. Surpluses reached such levels that the Community exporters themselves stored them (an expensive proposition) rather than sell at an even greater loss. This made so little sense that in 1982 and again in 1983, 1 million tons of surpluses were counted against the "A" quota (as the Community regulations permit). This meant, in effect, that the guarantees of purchase for new output under the "A" quota for each of those years were reduced by about 1 mn tons (about 10 per cent) and plantings correspondingly cut(22). This applied to all producers equally, irrespective of whether they were themselves responsible for exports. As a result, smallholders who did not increase production much were penalised proportionally as much as major growers who did. Their prices were in effect cut, but they obtained no compensation. Quotas, in this case, led to the equivalent of a price cut despite the implied promise that prices would be maintained. Further, the route to these price cuts was a particularly costly one. Community exporters had acquired a quarter share of the world sugar market, starting from nothing, within six years; and had made traditional exporters, mostly developing countries, and smallholders in the Community, pay a large part of the bill for the expansion of the larger European beet-growers.

Of course, competition too would hit laggard producers. But in that case low-cost producers - mainly in the Third World - would gain market shares, not high-cost European ones. In the event, the beet-growers who can mobilise the biggest subsidies from rich governments have expanded at the cost of low-cost exporters in poor countries as well as poor producers at home. This is no basis on which to conduct social policies at home or foreign policies abroad.

For all these reasons, reforms based from the outset on price reductions offer better prospects of longterm adjustment than do quotas. They also seem to have a wider range of application. At least, the Commission argues that quotas can only be imposed effectively where processing takes place in a manageable number of plants. There are only 130 sugar factories in the Community and the 1500 dairies are considered a borderline case (Commission 1981c). The European grain trade is said to be far too dispersed to allow a similar approach. This casts further doubt on the effectiveness of "guarantee thresholds" (as distinct from penal taxes) controlling surpluses when basic prices within the quotas are too high.

In practice, some of the problems of limiting output can be very similar irrespective of whether price cuts or quotas are attempted. For instance, inadequate price reductions and insufficiently tight quotas can equally encourage lower-cost farmers to produce more in hopes of making up for losses on each individual ton produced. Again, both quotas and price cuts, by reducing incentives to operate within the lines of farming under control, stimulate farmers to seek compensation in other lines. One of the drawbacks of the Community coming so late to restraint of output in the C.A.P. is that there are now very few lines (and virtually no major ones) in which farmers can expand without generating surpluses. Controls are likely, therefore, to spread from one line to its neighbours.

Of course, given the different conditions in different commodities, it is possible to combine price strategies in some with quotas in others. The Community's decisions of 1984-85 implicitly do this by applying tight quotas on milk where the budget situation has become desperate; and reducing real prices (by not compensating for inflation) for most of the other major commodities, including cereals, olive oil, wine and some fruit and vegetables (Commission 1984).

Underlying Themes

Behind the technicalities of policy-making, which are themselves very important, there are a number of underlying political themes which are even more important for the future both of the Community and agriculture in the member states.

The first of these is that limits are bound to spell at least relative depression in the countryside. The problem of farming as a "declining" industry has been evaded for several decades. It cannot be evaded any longer. This is a fundamental turning-point in the history of the profession and will have many consequences. Some studies suggest the depression may not be as painful as farmers, in natural alarm at the end of unconditional expansion, will no doubt assume. Moderate but steady longterm price reductions might not cut net incomes much and even, when farmers are successful in cutting costs, leave room for some improvement. But the projections may be too optimistic in the light of past experiences with prices and output. There will in any case, at least for a period, be little prospect of average incomes rising much. If the general economy revives and earnings in non-farm jobs move forward when those on the land do not, relative returns from the land will continue to fall, as they have done in the later 1970s. And the collapse of former expectations, however artificial these may have been, tends of itself to engender a psychology of depression.

Reduced growth will slow down the trend towards the concentration of output on a small minority of highly productive farms which high price supports encouraged. It will favour lower-cost and less intensive farming. The drift from the land will nonetheless continue, if only for demographic reasons. Though more gradually, the transformation of the old peasant society into an industry in many ways like any other will go on. Yet Community farming in the year 2000 will still be largely in the hands of medium-sized family farms, on average much smaller than British holdings in 1975. There is still, for all the changes since the war, a large remnant of the old peasant agriculture. It is much more than a remnant in the Mediterranean, in Ireland and even in Southern and Western France and Germany. Its relative weight will be further increased by the accession of Portugal and Spain. The reduced prospects for agriculture will accentuate the problems of farmers, regions and contries who rely more than the rest of society on agricultural incomes.

Limits make plain what has in fact always been true of the C.A.P.: low incomes in poor regions cannot be improved primarily by channeling funds to agriculture through price supports. A declining industry cannot be the standard-bearer of the future in less productive areas. There has already been a shift in the thinking of the European Commission towards "integrated" development in "less favoured" regions, including industry, services and infrastructures as well as farming. But this is still not reflected to any extent in financial flows through Community budgets. A serious commitment to "integrated" development will imply a relative reduction of the excessive emphasis on agriculture in Community funding. It will not imply a reduction in general Community spending, rather the reverse. The political conflicts surrounding the budget will not disappear with limits on agriculture. They may well increase with enlargement.

The political effects of limits will not be confined to budgets. Until farmers are convinced that limits are inevitable, the stability of farm policy will always be in doubt. It is always possible in a crisis year to impose "prudent pricing". This has been quite traditional, even a recurrent pattern, in the old C.A.P. The test of restraint is not behaviour over 1-2 years, but the ability to maintain control for 5-10 years. That is a political feat of a different order. Left to themselves, governments will probably prefer accomodation within the C.A.P. to the dubious prospects for member states of striking out alone. But limits will exacerbate differences of interests not only between farmers and society but between farmers themselves, at different levels of income, in different countries, and in different lines of production. Political resistance and even violence may at times force governments into channels they would of their own free will much prefer to avoid.

Ultimately, however, the political issues generated by limits in the Community go even deeper than the obvious difficulties of maintaining control over the constituency. Limits on expansion bring out into the open the dilemma in policy-making as between national preferences and Community desciplines. So far, the C.A.P. has been much less common than its title suggests. It has been a dual system, mainly communautaire for prices, mainly national for investments. There has been little collective regulation of the latter. This has not mattered much in an expansionary climate. Each country, preoccupied by its own growth, paid little attention to that of others. The accent was not on disciplines at all. This changes with limits. Countries or interest groups forced to observe restraints themselves will not take kindly to actions by others which smack of sharp practice. Behaviour will have to be tightened up. The dual policy, in one way or another, will have to become more coherent and unified. Channels of action may well remain national. Bank credits can hardly be anything else. But the guidelines will have to be genuinely as well as formally common. There can be no general restraint without national investment priorities being, de facto, folded into the common one.

Whatever form it takes, the control of investment policies implies an enormous practical extension of the writ of the collective. Since the lack of such controls in the past has been anything but accidental, their affirmation means a pooling of sovereignty far beyond that in the traditional C.A.P. However obscurely this is faced, or not faced, in the interstices of a complex, opaque and multi-national administration, the political issue is a decisive one. Accordingly, there is a clear potential for a reversion, initially covert and then increasingly open, to national agricultural policies. But if the risks of these are felt to be too great (for a range of economic and political reasons cited earlier), the reciprocal prospect is of an equally significant increase in the practical primacy of collective government. The crisis is a source of potential integration in strict proportion to the risk it bears of the reverse. Paradoxically, this could be the indispensible condition of the C.A.P. becoming effectively and not only formally common. It holds out the possibility for the first time of national authorities having to accept priorities compatible with operation as a collective, that is, of a genuinely common agricultural policy.

The final theme thrown up by limits is that the Community can no longer escape a new relationship with the rest of the world consequent of becoming one of the world's dominant farm exporters. The horizons of the C.A.P. have in the past been essentially confined to the Community's own region. With massive exports, the Community has to acquire some sense of the world politics of food. This would be true even if the Community were a low-price, obviously competitive exporter. It becomes doubly so when Europe exports on a diet of subsidies which are provocative to rivals and play a significant role in depressing world markets.

This is more than a balance of terror with the United States, inducing stalemate. Once the Community depends on world markets, it becomes involved in how effectively they work. Given the difference between Community interests and those of other countries, such a situation does not point clearly to a single set of priorities. These will depend on how narrowly the Community defines its farm interests and how far it tries to integrate them with broader policies. Even on farm issues, strictly defined, there can be differences between minimal approaches - say, caution in expanding market shares in one commodity for fear of competitors retaliating in another - and maximal ones, such as attempts to set up international buffer stocks to iron out damaging swings of prices from year to year. What choices will be made is a matter for speculation. What is not speculative is the fact that henceforth the Community cannot avoid giving thought to the international dimensions of its farm policies. This is new but already evident in the crisis of 1983-84.

Thus, a complex of agricultural policy problems which gradually matured towards crisis in the 1970s under the heading of surpluses, begins to appear, once the various strands knot together in the 1980s, as something much broader and deeper. Domestically, it means recognising that agriculture cannot expand as it has done for a generation, and that, for the poorer regions, this demands a bigger commitment to broad development policies than in the past. Externally, it implies limits and a greater concern for world food markets and the effects of policy, not least on developing countries. For European integration, it raises the stakes either to a greater cohesion of policy in the Community or a disguised dislocation. All of this plainly goes well beyond agriculture in the strict sense. It is also bound to test the political resources of the Community and its member states for years to come. It is not the end of a crisis so much as the beginning of a new and widely ramified process, full of continuing strains and uncertainty. One of the prizes at the end of the process could well, with apparently paradoxical logic, be a much stronger and deeper-rooted European Community. In this sense, what is needed now is a common agricultural policy. It has certainly not existed in the past.

NOTES

1. Import duties also form part of Community "own resources". VAT receipts account for somewhat over half of all income. Customs duties and agricultural levies on imports cover most of the rest.

2. This assumes that the ceiling on VAT proceeds for the Community budget is raised from 1 per cent to 1.4 or 1.5 per cent.

3. Grain equivalents are a measure of the growth of the physical volume of production. Products other than grains are given a conventional (but not arbitrary) rating in terms of grain. For instance, one ton of beef is rated at 8 tons of grain; one ton of citrus fruit at a quarter ton of grain. Grain equivalents are useful because they provide a constant base for comparing volumes of output. This is not the case with comparisons in prices because the ratios between prices of different goods are liable to change. In particular, since agricultural prices tend to fall over time compared with non-farm prices taken as a whole, rates of growth of output (for instance) tend to be understated when made in money terms. On the other hand, and for the same reason, comparisons in grain equivalents will not be useful for assessing trends in farm incomes.

4. Food exports expressed as a percentage of imports of food in Southern European countries developed as follows between 1964 and 1980:

	1964	1980
Greece	157	143
Portugal	99	44
Spain	123	88

Greece held up better than Iberia until entry into the Community in 1981. In 1982, the coverage had fallen to 99 per cent.

5. For instance, Bergmann (1979), quoting INSEE studies, puts demand elasticities for food at 0.2 in France, with population growing at 0.4 per cent per annum. On these figures, even general growth rates of 4 per cent per annum would produce an increase in demand of only 1.2 per cent a year. However, because farm prices fall in relation to other prices, the rates in volume (i.e. in grain equivalents) would be likely to be somewhat higher.

6. Plant breeding may well be the most important factor. In the U.K. it has been estimated that plant breeding accounted for 65 per cent of the increase in wheat yields in the 20 years after 1950. In the 1970s, all the yield improvement is attributed to the introduction of superior varieties (OECD 1983).

7. Article 39 (1) of the Rome Treaty sets as one of five goals of the common agricultural policy: "to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture".

8. In 1960, Denmark accounted for 23 per cent of food exports between the nine states that were to be members of the European Community in 1980, but twenty years later this had dwindled to 8 per cent. The Netherlands' share fell only from 29 per cent to 26 per cent, and most of the change took place from 1960-1970. Trade trends make it clear that Denmark suffered from exclusion from the growing German market in those years and over-concentration (perforce) on the sluggish British one.

9. These estimates take account of final agricultural output, and exclude the large imports of animal feed which are used for the livestock industry. If these are included, the Community's self-sufficiency ratio of 83 per cent in 1973 had risen by 1981 to 97 per cent (all figures in grain equivalents, cf. fn 3). However, the trend is similar; and for world markets the Community's exports of final products (dairy, meat, sugar etc.) are enormously significant. (Sources as in Table 2.)

10. The contrast in exports of cereals and sugar (by volume) within the Community and to the outside world after 1973 is spectacular:

	Intra-Community	Extra-Community
	Rate of growth ± between 1973 & 1981 (percentage per annum)	
Cereals	- 1.6	+ 14.2
Sugar	- 3.2	+ 21.1

(See Commission of the European Communities, Report on the Agricultural Situation in the Community 1982, pp 247 & 249.)

11. In grain equivalents, intra-Community exports of the major farm products recorded in the annual Reports on the Agricultural Situation in the Community increased by some 5 million tons, extra-Community exports by some 20 million tons between 1978 and 1980.

12. Sugar plantings in the Community rose from 1796 mn ha. in 1978-9 to 2026 mn ha. in 1981-2, then fell again to 1667 mn ha. in 1983-4.

13. A Commission budget exercise, based on conditions of 1980, to discover how much enlargement from an EC-9 (excluding Greece) to an EC-12 would cost, estimated that net expenditures by the Nine would increase 10-15 per cent. Spain and Portugal alone would represent an increase for the Ten of 7-9 per cent. The figures, however, assume unchanged arrangements and in this sense are quite static. Cumulative demands would almost certainly be bigger.

14. The Community being a temperate producer, its natural competitors tend to be in the English-speaking world: North America and Australasia. Sometimes South Africa. Brazil (oilseeds) and Argentina (grains) are significant, but less so. The main exception is sugar, where LDCs predominate. South-east Asia would actually lose from a liberalisation of Community farm trade because its sales of cereal substitutes to the EC thrive on high Community grain prices.

15. The last figures published by the Commission, and criticised but not improved by the governments of the member states, refer to 1978. For what they are worth, they put Community farm spending that year at 7 bn ECUs and national public expenditures at 13.6 bn ECUs, including social security payments valued at 6.3 bn ECUs. These figures almost certainly understate the value of national payments or exemptions, such as from taxes. (Commission of the European Communities, Report on the Agricultural Situation in the Community 1980, pp 186, 234 and 243.)

16. In 1981, Britain was almost self-sufficient in cereals and, if one includes "traditional" imports, in sugar, mutton and dairy products as well. Together, these products come to nearly half of net agricultural output.

17. The difficulty of comparisons between American and Community prices can be gauged from the fact that in 1980 the ECU was worth $1.39 and in 1983 $0.90, without this being related to differences in rates of inflation or trade balances. In 1983-84, EC support prices were 25-50 per cent above American ones for grains (wheat 25 per cent) and up to a third lower for dairy products (milk 13 per cent). In 1980 American prices would, of course, have been relatively much lower.

18. Between 1975 and 1980, labour left the land in the Community at a rate of 2.5 per cent a year (Commission of the European Communities, Agricultural Situation in the Community, 1982 Report, p 285).

19. More than half of Community farmers are part-timers, but in 1977 27 per cent of all farm holders also had earnings off the land. In Germany, the average earnings of part-time farmers (less than 1/2-time) and still more of spare-timers (less than 1/4-time) are higher than those of full-timers. One of the main problems of compensation to smallholders is to sort out those with and without off-farm earnings.

20. In 1983 the net cost of sugar to the Community budget was about 400 mn ECUs, about a twelfth the cost of milk (Commission 1983, pp 26 & 34).

21. The Community treats the exporters of the sugar islands of the Caribbean, the Indian and Pacific Oceans in the Lome Convention as full-price European producers. This is a major privilege, but adds a further 1.2 mn tons to what is in effect Community output. This is not counted in the text.

22. Sugar factories which cannot sell their "C" sugar profitably on behalf of the growers under contract to them, can hold up sales and wait for a better moment to export. After a year, the amount held back is counted against the domestic, high-price "A" quota for the next harvest. The mechanism is necessary because otherwise the excess sugar would permanently depress the market for Community exporters themselves.

23. France is, after Britain, the country in the Community with the largest average size of farms (about 25 ha. in 1980 - Commission 1981ASC, p 266). But even if the number of farms declined from 1.135 thousand in 1980 to 640 thousand in 2000 (Bergmann 1983, p 284), the mass of holdings would be around 40 ha. each and the average would still be well below the British of 66 ha. in 1980.

24. Notes to Table 1 (continued):
1953/5 - 1959/61: Output - Pierre Gonod, "Evolution de la Productivité de l'Agriculture dans la CEE" in Commission of the European Communities, Informations Internes sur l'Agriculture 44 - 1969 pp 309 - 313; Consumption - UN, National Accounts;

1957/61 - 1969: Guenther Thiede, "Die Versorgungslage der EWG mit landwirtschaftlichen Erzeugnissen", Ministry of Agriculture, Bonn, Bericht ueber Landwirtschaft, Band XLVIII, 1970 Heft 2, pp 228-275;

1973 & 1981: Commission of the European Communities, Eurostat, "Overall Accounts on the Community Supply Situation based on grain equivalents", Agricultural Statistical Studies, 22, 1980; & Cost Production 1 - 1983, March 1983, pp 129-153.

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